Postal Regulatory Commission
Submitted 9/25/2015 4:07:19 PM
Filing ID: 93448
Accepted 9/25/2015

BEFORE THE

UNITED STATES OF AMERICA POSTAL REGULATORY COMMISSION

WASHINGTON, DC 20268-0001

Periodic Reporting (Proposal Seven)

Docket No. RM2015-16

PUBLIC REPRESENTATIVE COMMENTS IN RESPONSE TO ORDER NO. 2654 CONCERNING RULEMAKING ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING (PROPOSAL SEVEN)

September 25, 2015

I. INTRODUCTION

The Public Representative hereby files Comments pursuant to the Commission's Notice of August 11, 2015 in this docket on the Postal Service's petition for rulemaking of analytical principles used in periodic reporting.[1] On August 5, 2015, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes to analytical principles relating to the Postal Service's periodic reports.[2] The Petition labels the proposed analytical method changes filed as Proposals Seven. The Postal Service also responded to Chairman's Information Request No.1, August 27, 2015 (CHIR No. 1)[3].

[1] Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Seven), August 11, 2015, Order No. 2654 (Notice).
[2] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), August 5, 2015 (Petition).
[3] Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, August 27, 2015 (CHIR Response).

Proposal Seven seeks to modify the modeling methodologies used in the USPS- FY14-11 (Docket No. ACR2014) Standard Mail Flats Mail Processing Cost Model and the USPS-FY14-11 (Docket No. ACR2014) Periodicals Flats Mail Processing Cost Model. Petition, Proposal Seven, Section One at 1. It also introduces a methodology to disaggregate delivery costs for Periodicals Flats, Bound Printed Matter Flats, Standard Flats, and Carrier Route Flats1 between those destinating in Flat Sequencing System (FSS) ZIP Codes (Zones) and those destinating in non-FSS Zones. Petition, Proposal Seven, Section Two at 1.

As discussed in more detail below, the Public Representative supports Proposal Seven. She also corrects one small computational error in the delivery cost portion of the proposal.

II. COMMENTS

A. Mail Processing Cost Models

The Postal Services proposes nine modifications to the Standard Mail Flats Mail Processing Cost Model. Petition, Proposal Seven, Section One at 1. Additionally, it proposes to apply two of these modifications the Periodicals Flats Mail Processing Cost Model. *Id.*

Modification 1 (also applies to Periodicals). In Modification 1, the Postal Service presents its methodology for estimating the proportion of flats processed in mechanized incoming secondary operations. It calculates the ratio of the volume of flats worked on mechanized equipment to the total volume of mail requiring incoming secondary sortation. *Id.* As explained by the Postal Service, its model accounts for two different technologies used in mechanized incoming secondary operations, the AFSM 100 and the FSS. *Id.* at 5. It also adjusts its measure of mechanized incoming secondary volume (MODS TPF) to exclude letter shaped mail worked in flats operations, pieces entered in Carrier Route

bundles that have broken and thus require IS sortation, rejects from FSS operations, and pieces in FSS zones that are not worked on the FSS. *Id.*

The Postal Service represents that reliable measures of mail volume by 5-Digit zone and class do not exist. *Id.* at 5-6. Consequently, it uses Address Management System (AMS) data and ODIS data to derive volume per 5-Digit zone by class. *Id.* Although it is a less than ideal substitute for actual data, after FY2015, the Postal Service will have direct measures of volume destinating in FSS zones. Therefore, despite its weakness the Public Representative supports the Postal Service's calculation.

The Postal Services uses IOCS cost data to exclude letter shaped mail worked in FSS and AFSM 100 operations. *Id.* at 6. It uses the ratio of letter costs in FSS and AFSM 100 operations to total costs in FSS and AFSM 100 operations multiplied by MODS TPH to estimate of the number of letters processed on FSS equipment. *Id.* The Postal Service implicitly assumes that AFSM 100 and FSS productivities are the same for letters and flats. The Public Representative finds the Postal Service's assumption reasonable given the Postal Service's explanation that the productivities are machine-dependent not shape shape-dependent.

The Postal Service's methodology uses MODs data manipulations to exclude Carrier Route bundles that have broken, rejects from FSS operations and pieces in FSS zones that are not worked on the FSS. *Id.* at 7-8. Its calculation is straightforward and does not raise any concerns for the Public Representative.

Modification 2 through 7. In modifications 2 through 7, the Postal Service presents changes to bundle processing flows to account for increased mechanized incoming secondary piece processing, calculates bundle flows for FSS bundles, models piece flows for pieces that are presorted for the FSS,

updates the 5-Digit Piece Model and costs to reflect changes in flows resulting from the introduction of FSS presort, updates MADC, ADC, 3-Digit models to reflect the recalculation of the mechanized IS sortation and presents its model of AFSM 100 prep costs. *Id.* at 8-11.

The Public Representative finds nothing controversial about these modifications. The Postal Service's approach is consistent with past practice and its assumptions closely reflect operational realities.

Modification 8. The Postal Service proposes to deviate from past practice of allocating non-modeled (allied, platform and inter-operational transit activities) costs in proportion to direct costs. *Id.* at 11-12.The Postal Service argues that the allied and platform costs incurred by FSS pieces are likely similar to those incurred by 5-Digit pieces because the activities involved are identical for the two categories. *Id.* It contends that because the direct costs for FSS are substantially higher than for 5-Digit, assigning non-modeled costs in proportion to direct costs, erroneously allocates more non-modeled costs to FSS than 5-Digit. *Id.* The Postal Service therefore, equalizes the non-modeled costs assigned to 5-Digit and FSS on a unit basis. *Id.*

The Postal Service makes reasonable arguments that the assumption that non-modeled costs are incurred in proportion to explicitly modeled costs does not hold for FSS. As discussed in detail in its response to CHIR Response, Question 4, FSS pieces generally incur allied and platform costs similar to 5D pieces. The Public Representative agrees with the Postal Service that the proposed adjustment better reflects operational realities.

Modification 9 (also applies to Periodicals). The Postal Service develops an FSS realization factor that reflects the proportion of FSS eligible mail that is processed on the FSS. *Id.* at 12-13. It computes the FSS realization factor as a

ratio of MODS FSS TPF, after accounting for letters processed on the FSS, to FSS candidate volume. *Id.*

The development of the FSS realization factor is straightforward from a technical point of view. As long as the MODs data underlying the calculation is reliable, the FSS realization factor should be an accurate reflection of the proportion of FSS eligible mail that is processed on the FSS.

B. Method for Calculating Delivery Costs for Periodicals Flats, Bound Printed Matter Flats, Standard Flats, and Carrier Route Flats Destinating in FSS ZIP Codes

The Postal Service proposes a method to disaggregate delivery costs for Periodicals Flats, Bound Printed Matter Flats, Standard Flats and Carrier Route Flats (not including High Density or Saturation) between those destinating in FSS zones and those destinating in non-FSS zones. Petition, Proposal Seven: Section Two at 1. This method uses operational assumptions and models to calculate separate delivery costs for the categories based on whether pieces are destinating in FSS or non-FSS zones. *Id*. at 3.

The Postal Service puts forth good arguments that delivery costs should be disaggregated between flats destinating in FSS Zones and those destinating in non-FSS Zones, rather than distinguishing delivery costs between flats that pay FSS rates and those that do not. The Public Representative in general, supports the method to disaggregate delivery costs. However, the Public Representative believes that the Postal Service made a slight error in its calculation of the proportion of flats destinating in FSS Zones that are not finalized on FSS equipment.

The Postal Service discusses three reasons why flats destined in FSS Zones may not be finalized on FSS equipment. *Id.* at 10-11. First, pieces that are

non-machinable are not finalized on the FSS. The Postal Service considers the volume of non-machinable pieces to be negligible and assumes it to be 1 percent of flats destined in FSS Zones. *Id.* Second, flats that miss their CET and therefore have to be processed on AFSM100 or manually for service reasons are also not finalized on the FSS. *Id.* The Postal Service estimates that service standards result in 15 percent of flats destinating in FSS Zones not being induced on FSS equipment. *Id.* And finally, flats rejected by FSS equipment are not finalized on the FSS. *Id.* The Postal Service estimates that 10 percent of flats are attempted but not successfully sorted by FSS processing. *Id.*

The Postal Service calculates total proportion of flats not finalized on FSS equipment for these three reasons and arrives at 24.5 percent. *Id.* The Public Representative believes that the formula presented by the Postal Service in footnote 12, (.01 +.15 + (.85 x .1) = .245) mistakenly multiplies the proportion of flats attempted but not finalized on FSS by 0.85, when in fact only 84 percent of flats destined in FSS Zones go on the FSS (one percent is non-machinable and 15 percent are not induced on the FSS to meet service standards). Substituting .84 in the Postal Service's formula has just a minimal effect on the proportion not finalized on FSS equipment (.244 vs. .245). However, the Postal Service rounds to the nearest percent, and uses 25 percent as the proportion of flats destinating in FSS Zones that are not finalized on FSS equipment. With the correction proposed by the Public Representative, the proportion rounds down to 24 percent.

The Public Representative submits the preceding comments for the Commission's consideration.

Respectfully Submitted,

/s/_____

Katalin K. Clendenin
Public Representative
901 New York Ave. NW
Washington, DC 20268-0001
202-789-6860
Katalin.Clendenin@prc.gov